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### Before the FEDERAL COMMUNICATIONS COMMISSION

Washington, DC 20554

RECEIVED SEP 2 7 1995 In the Matter of Review of the Commission's Regulations Governing Broadcast MM Docket No. 95-90 Television Advertising BOCKET FILE CORY ORIGINAL

### REPLY COMMENTS OF THE BROADCASTERS COALITION

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#### **SUMMARY**

The initial comments in this proceeding demonstrate that the Commission must retain the network rep rule. Individual broadcast stations, the supposed beneficiaries of the rule's repeal, unanimously agree that the rule still is critical to enhancing competition in the national video advertising market and promoting localism in programming. Indeed, the only parties urging elimination of the rule are the networks.

The initial comments show that the network rep rule is vital in preventing abuse of network power. Because the networks wield such significant economic power over their affiliated stations, repeal of the rule would allow networks to make their representation services an option affiliates could hardly refuse. Contrary to the networks' claims, the climate has shifted toward greater network, not affiliate power. The increase in the number of broadcast stations favors the networks because it gives the networks a larger number of outlets from which to choose. Moreover, long-term affiliation agreements have limited the ability of individual stations to switch affiliation. The networks also ignored the recent elimination of Fin/Syn and PTAR, which give the networks powerful new leverage over affiliates.

Not only do the networks fail to recognize their power over affiliates, they vastly understate the importance of the programming advice offered by independent reps. Station licensees value and rely on this objective advice to help them choose programming best suited to their particular community. It is plain that the networks' conflict of interest as a programming distributor would not allow them to provide the same unprejudiced advice as an independent rep. The networks fail to dispute these facts.

The networks claim that the Commission's repeal of the *Golden West* policy provides support for eliminating the network rep rule. However, the *Golden West* policy is not analogous to the network rep rule. An affiliated station who retains an independent

representative could easily switch if the representative is failing to provide sufficient service.

Switching would not be nearly as simple if the representative is owned by the network.

Therefore, affiliates would have no recourse against network-owned reps that are not providing suitable service.

Not only would the network rep rule's elimination unduly increase network power over their affiliates, it also would greatly diminish if not destroy competition in the national video advertising marketplace. The initial comments show that the only substantially substitutable alternatives for national advertisers who desire to reach a broad-based audience of millions of people are network advertising and national spot advertising. The networks' suggested alternatives to these two advertising vehicles are not suitable substitutes. First, newspapers, magazines and the yellow pages are inherently local and not generally used by national advertisers. In addition, neither barter syndication nor cable spots receive the same level of clearance or can guarantee a uniform time or audience throughout the nation.

Therefore, eliminating the network rep rule would allow the networks to control the prices of the only two substantially substitutable advertising vehicles that can consistently reach a broad based audience of millions of viewers.

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In the Matter of	)	
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Review of the Commission's	)	
Regulations Governing Broadcast	)	MM Docket No. 95-90
Television Advertising	)	

### REPLY COMMENTS OF THE BROADCASTERS COALITION

A.H. Belo Corporation; Busse Broadcasting Corp.; Capitol Broadcasting Company; Citicasters Co.; Cox Broadcasting, Inc.; Gateway Communications, Inc.; Griffin Television, L.L.C.; Guy Gannett Communications; KPDC License Partnership; Paxson Communications Corporation; River City Broadcasting, L.P.; Sinclair Broadcast Group, Inc.; Tribune Broadcasting Company; WCPX License Partnership: and WHNS License Partnership (collectively "the Broadcasters Coalition"), by their attorneys, submit their reply comments in response to the Commission's *Notice of Proposed Rule Making* in the above-captioned proceeding. The initial comments in this proceeding demonstrate that the Commission must retain its network advertising representation rule, 47 C.F.R. § 73.658(i) and the network control of station advertising rate rule, 47 C.F.R. § 73-658(h) (collectively the "network rep rule" or the "rule").

<sup>1/</sup> The Broadcasters Coalition operates more than 50 television broadcast stations, many of which are network affiliated. In addition, a wholly-owned subsidiary of Cox Broadcasting, Inc., TeleRep, Inc., is an independent sales representative for numerous television stations.

<sup>2/</sup> In the Matter of Review of the Commission's Regulations Governing Broadcast Television Advertising, *Notice of Proposed Rule Making*, MM Docket No. 95-90 (rel. June 14, 1995) (the "*Notice*").

### I. Introduction.

The initial comments in this proceeding plainly illustrate the continued vitality of and need for the network rep rule. Broadcasters, the supposed beneficiaries of the rule's possible repeal, unanimously agree that the rule still is critical to enhancing competition in the national video advertising market and promoting localism in programming. Broadcasters agree that, without the network rep rule, networks would be able to force affiliates to use network-owned reps, which would drive independent rep firms out of business and would give networks the ability to control the price of national spot advertising. The comments also demonstrate that broadcasters value the objective programming advice offered by independent reps, which helps individual broadcasters choose programming optimally responsive to local community needs.

In contrast, the networks' arguments for eliminating the rule are based on misguided economic theories and exaggerated claims of alternatives for both network affiliates and advertisers. Currently, the principal components of the national video advertising market are network advertising and national spot advertising. The alternatives suggested in the networks' comments, such as barter syndication, cable television, newspapers, magazines and the yellow pages, do not have the same broad audience base to reach millions of viewers and plainly are not substitutes for national spot advertising. Eliminating the network rep rule would in effect allow the networks to control advertising sales for the two major vehicles of reaching the largest television markets. To say that this would have a deleterious affect on competition would be a gross understatement. Although the networks attempt to belittle the importance of the rule by characterizing it as "ancient," this old rule has not outlived its usefulness.

#### II. The Rule Prevents Abuse of Network Power.

Although the networks claim that alternatives to network affiliation have so increased that they no longer could force representation agreements on their affiliates, the evidence shows otherwise. The comments of broadcasting groups and network affiliates show that networks still wield tremendous power over their affiliates. In the current environment, networks could readily make their representation services an option affiliates could hardly refuse. Moreover, in arguing that the climate has shifted toward greater affiliate power, the networks ignore the effect of recent changes in Commission rules which grant them greater leverage over their affiliates. Finally, the networks vastly understate the importance of the programming advice that independent reps provide to their clients.

### A. The Networks Fail to Show That They Lack Power to Force Their Affiliates into Representation Agreements.

While the networks claim that they could never force their affiliates into representation agreements, they are the *only* parties that hold this opinion. For example, the CBS and ABC Television Network Affiliates Association stated that "[r]epeal of the rules will force many affiliates to switch to network-owned sales representatives . . . because the affiliates are dependent on a network affiliation for much of the value of their station." This view is uniformly echoed by the comments submitted by various broadcast groups. 4/

The opposition of affiliated stations to repeal of the rule confirms the networks' power. Unlike the networks, affiliated stations have no independent financial stake in the rep

<sup>&</sup>lt;u>3</u>/ Comments of the CBS Television Network Affiliates Association and the ABC Television Network Affiliates Association at 4-5.

<sup>4/</sup> See Comments of the Broadcasters Coalition at 7-8; Comments of Pappas Stations Partnership at 5; Comments of AFLAC Broadcast Group at 8; Comments of Brechner Management Company at 2; Comments of MAC America Communications, Inc. at 3.

business, so they have no reason to exaggerate the control the networks exercise. Moreover, according to the networks, individual broadcast stations would be among the beneficiaries of the rule's repeal. The networks argue that eliminating the network rep rule would provide more competition in the representation business, thereby increasing the quality of services and lowering prices. If these claims were true, individual broadcast stations would have every reason to support eliminating the network rep rule because it would mean lower costs for representation services. But individual broadcast stations have unanimously opposed the rule's repeal.

The Commission must accord considerable deference to affiliates' views on the degree of network control and the benefits to consumers of representation services should the rule be eliminated. The best evidence that the rules are still needed is the opinions of the purported beneficiaries of repeal—individual broadcast stations. Those stations uniformly support the rule's retention. If the networks' claims of their diminishing power were true, there would be no reason for affiliates to oppose the rule's elimination.

The networks have made it very clear from their comments that they wish to expand their rep business beyond the stations they own. Moreover, experience shows that the networks will use their power over affiliates to ensure that they have new clients for an expanded rep business. The Commission need only look to other recent changes in network rules to conclude that, given the opportunity, networks will exploit their power over affiliates. For example, in 1989 the Commission eliminated the rule limiting the duration of television

<sup>5/</sup> See, e.g., Comments of CBS at 25.

<sup>6/</sup> See Comments of NBC at 18-19; Comments of Capital Cities/ABC at 19; Comments of CBS at 25.

network affiliation agreements to two years. Since the rule's elimination, network contracts are almost always for long terms, often as long as ten years.

Moreover, the networks' claims of increased affiliate power are not credible. An increase in the number of broadcast stations favors the networks, not the affiliates, because it gives the networks a larger number of outlets from which to choose. While the networks claim that the possibility of station licensees switching affiliation to other networks has curbed network power, that is not the case. *See, e.g.,* Comments of Capital Cities/ABC at 15. One important effect of long term affiliation agreements is that they limit the opportunity to change networks, especially if other networks' affiliates in a market also are subject to long term agreements. In contrast, if an affiliated station left the network, in most markets the network would have other unaffiliated stations from which to choose.

The networks also ignore recent changes in Commission rules that substantially enhance their power. The repeal of Fin/Syn and the Prime Time Access Rules ("PTAR") opens the way for networks to become important suppliers of syndicated programming to their

<sup>7/</sup> In the Matter of Review of Rules and Policies Concerning Network Broadcasting by Television Stations: Elimination or Modification of Section 73.658(c) of the Commission's Rules, Report and Order, 4 FCC Rcd 2755 (1989).

<sup>8/</sup> Long-term affiliation agreements, while binding on both parties, plainly have greater benefits for the networks. In the largest markets there are more television stations than networks. Therefore, long-term affiliation agreements make it very difficult for a station to switch affiliations. If the station desires to break its contract, there will be no other networks available, but there will be nonaffiliated stations available for the network. Indeed, history demonstrates that networks desire to bind affiliates into agreements while allowing themselves the option to switch stations. For example, in the days of the *Chain Broadcasting Report*, NBC affiliates were required to sign five year affiliation agreements, but NBC had the right to cancel on 12 months' notice. See Chain Broadcasting Report Commission Order No. 37, Docket 5060 at 35 (1941), modified, Supplemental Report on Chain Broadcasting (1941), appeal dismissed sub nom. NBC v. United States, 47 F. Supp. 940 (1942), aff'd 319 U.S. 190 (1943).

<sup>9/</sup> See, e.g., Comments of NBC at 8.

affiliates and to demand more time from affiliates' schedules. The repeal of these two rules gives the networks powerful new leverage over affiliates. A network with a popular syndicated show could use the show as a bargaining chip to persuade affiliates to hire it as their representative. The network could offer the syndicated program and network representation as a package deal. PTAR's elimination also provides the networks with greater programming opportunities. Networks will now be able to require their affiliates to clear network programming during the entire four hours of prime time. The networks' comments ignore the effect of eliminating these two rules on network power.

### B. Broadcasters Value the Independent Programming Advice Given by Independent Reps.

In their initial comments, the Broadcasters Coalition described the importance of the programming advice offered by independent reps, 11/2 noting how reps recommend programming to best meet the needs of a particular community. 12/2 In offering this advice, the rep's sole motive is the licensee's interest and that of the individual station's viewing public. Station licensees rely on independent reps to provide them with this advice. 13/2 Broadcasters value

<sup>10/</sup> Review of the Syndication and Financial Interest Rules, §§ 73.659-73.663 of the Commission's Rules, Second Report and Order, 8 FCC Rcd 3282, recon. granted in part, 8 FCC Rcd 8270, aff'd sub nom. Capital Cities/ABC, Inc. v. FCC, 29 F.3d 309 (7th Cir. 1994); In re Review of the Prime Time Access Rule, Section 73.658(k) of the Commission's Rules, Report and Order, MM Docket No. 94-1123 (rel. July 31, 1995).

<sup>11/</sup> Comments of Broadcasters Coalition at 10-13.

<sup>12/</sup> This does not mean that reps recommend the most popular type of programming. Reps also, for instance, recommend programming that will appeal to viewers who are underserved in a particular market or time slot.

<sup>13/</sup> Other parties confirmed this showing. See, e.g., Comments of AFLAC Broadcast Group at 8; Comments of Brechner Management Company at 1.

this advice because the independent rep only has the incentive to recommend programming that will most benefit the station.

Unlike independent rep firms, networks are also programming distributors. Because they earn most of their revenue through mass advertising on their network programs, networks have an obvious conflict of interest in acting both as program/advertising distributor and rep. Networks are unlikely to recommend preempting or discontinuing network programming even if other programming would be better suited to the community. Indeed, network representation of affiliated stations plainly would lead to fewer incidents of network program preemption and, therefore, programming that is less tailored to the needs of each individual community.

ABC and CBS claim that elimination of the rule will not undermine the public interest in localism of programming because reps only offer advice and do not actually choose what programming will air. This argument simply illustrates that the networks do not understand the value of independent advice. While stations are not required to accept the advice, objective information allows the station to make well-informed programming decisions. Significantly, the networks do not dispute that stations rely on this objective advice. Nor do they dispute that their inherent conflict of interest would prevent them from offering such impartial advice. Rather, they rely on the Commission's elimination of the Golden West policy to argue that current market conditions support elimination of the network rep rule. However, the Golden West policy is not analogous to the network rep rule.

<sup>14/</sup> Comments of Capital Cities/ABC at 18; Comments of CBS at 21-22.

<sup>15/</sup> See Notice at ¶ 29.

The *Golden West* policy prohibited a licensee-owned sales representative from representing competing broadcast stations in the same area. The Commission repealed the rule when it determined that biased representation was not likely because it is in the representative's best interest to maximize profits for any station it represents. "The rep firms, struggling to remain competitive in the face of rising costs and competition from local and network sales, are also motivated to provide maximum service to each client." More importantly, the Commission recognized that the broadcast station has the unencumbered ability to switch rep firms if it is not receiving adequate service from its current rep. 17/1

The Commission's elimination of the *Golden West* policy provides no support for eliminating the network rep rule. The key distinction between the two is the unique nature of the network-affiliate relationship, which is very different from the relationship between a station and its non-network-owned rep. An individual broadcast station has complete power to discontinue using the services of one independent representative and select another independent rep. Therefore, the Commission was correct to conclude that independent reps have an incentive to provide the best possible service to every client, even if the rep is owned by a competing station. The services of network reps. however, cannot easily be discontinued. Network affiliation is vital to a station's success. It would be impractical for an affiliated station to dismiss its network-owned representative without jeopardizing the relationship with its principal program supplier. This inherently dependent relationship distinguishes the network rep rule from the *Golden West* policy. If the Commission

<sup>16/</sup> In the Matter of Representation of Stations by Representatives Owned by Competing Stations in the Same Area, *Report and Order*, 87 F.C.C.2d 668, 680 (1981).

<sup>&</sup>lt;u>17</u>/ *Id*.

eliminates the network rep rule, affiliated stations will have little recourse if the networkowned rep fails to provide objective programming advice.<sup>18</sup>/

The Commission must defer to the claims of broadcasters that this objective advice enables them to better serve their local communities. Localism is a fundamental Commission objective that should not be undermined by the elimination of the network rep rule. 19/
Network representation of affiliated stations would frustrate stations' ability to serve their communities by granting the networks greater capability to force clearance of network programming even if independent programming is more responsive to particular community needs.

### III. Elimination of the Network Rep Rule Would Diminish Competition.

Not only would the network rep rule's elimination unduly increase network power over the programming options of their affiliates, it also would greatly diminish if not destroy competition in the national video advertising marketplace. The initial comments show that there is no equivalent alternative to national spot and network advertising. The networks' claims that such alternatives exist ignore the fact that these purported alternatives cannot reach the same broad audience as buying ads on or adjacent to network programs. In addition, the economic data presented by the networks is misguided. The data analyzes an overly broad market and fails to account for the unique relationship between a network and its affiliates.

<sup>18/</sup> See Comments of Stations Representatives Association at 15-18.

<sup>19/</sup> To serve the public interest, the Commission issues broadcast licenses for a principal community or other political subdivision, and the broadcaster's primary responsibility is to serve that principal community. See 47 C.F.R. § 73.1120.

## A. The Comments Filed in this Proceeding Do Not Support the View That Changes in the Video Marketplace Eliminate the Potential for Network Abuse.

The networks rely on a study by Economists, Inc., submitted in the Commission's pending ownership proceeding, to argue that the market for national advertising is so broad that they would be unable to manipulate prices even if they controlled the sale of both network and national spot advertising.<sup>20</sup> In determining the level of concentration in a market, however, the Commission must focus on the correct market. The networks plainly include advertising vehicles in their market analysis that could never substitute for network or national spot advertising. For example, the networks suggest that newspapers, magazines, direct mail and the yellow pages all compete with the networks and affiliates for national advertisers. To suggest that these advertising vehicles could seriously compete with networks or national spots for national advertising is absurd. It is doubtful that many national food retailers, automobile manufacturers, national beverage distributors, etc. that rely on national spot advertising would seriously consider the yellow pages, which are inherently local. Similarly, newspaper advertising tends to be local and most magazines are directed toward such narrow groups that they are unlikely to attract the same mass audience as primetime television.

The market relevant to this proceeding is the market for national video advertising.

Currently, the only alternatives for national advertisers who desire to reach a broad-based

<sup>&</sup>lt;u>20</u>/ An Economic Analysis of the Broadcast Television National Ownership, Local Ownership and Radio Cross-Ownership Rules, May 17, 1995, submitted in MM Dkt. No. 91-221.

<sup>21/</sup> See, e.g., Comments of Capital Cities/ABC at 11.

audience of millions of people are network advertising and national spot advertising. The network-suggested alternatives to these two advertising vehicles are not substitutes.

For instance, the networks suggest that barter syndication is a substitute for network or national spot advertising. Not only is barter syndication not a substitutable alternative to either, the market for barter syndication will vastly change with the recent elimination of PTAR. Barter syndication fails to guarantee an advertiser a uniform time and audience throughout the nation. If an advertiser buys a spot on "The Ricki Lake Show," the ad could run at different times throughout the country. Because of this variance, advertisers cannot be sure of the demographic they are purchasing when buying ads on most syndicated television shows. In contrast, when advertisers buy a spot on or adjacent to "Seinfeld," they know that the ad will run throughout the country between 9:00 and 9:30 on Thursday evening. In addition, while some of the more popular shows such as "Wheel of Fortune" and "Jeopardy" receive over 90% clearance, clearance for most syndicated shows are not nearly as high as network shows, which uniformly clear well over 95% of households.

Moreover, as the Broadcasters Coalition noted in its initial comments, the networks are now entering the syndication business. Comments of Broadcasters Coalition at 18. The elimination of Fin/Syn and Disney's acquisition of Capital Cities/ABC will expand network control over syndicated programming, further increasing network power in the national video marketplace.

Elimination of PTAR also affects the viability of syndication. PTAR guaranteed time available for syndicated programming during the prime time hours in the top 50 markets.

<sup>22/</sup> See, e.g., Comments of CBS at 10.

<sup>23/</sup> For example, the ad could run at 10:00 a.m in New York City, and 4:00 p.m. in Philadelphia.

This time dedicated to independently produced syndicated programming would evaporate if the networks fill that time with network programming.

Cable programming also is not a substitutable vehicle for network or national spot advertising. Cable programming consistently receives a smaller, more focused audience than does national advertising. Moreover, only 62.5% of the nation's households subscribe to cable, <sup>24/</sup> and not every cable system carries the same cable services. Accordingly, in choosing cable spots over network or national spots, the advertiser substantially limits its audience from the outset. This is one reason that even the most popular cable programming earns ratings well below some of the least popular network shows. *See* Comments of Broadcasters Coalition at 16.

In short, the networks seek to control the prices of the *only* two means of reaching the largest number of viewers: network advertising and national spot advertising. Even with changes in the ways spot advertising is sold today, if networks are permitted to rep their affiliates there will be only three entities selling network and national spot advertising.<sup>25</sup>

There can be no doubt that such a situation would allow the networks to manipulate prices.

<sup>&</sup>lt;u>24</u>/ In the Matter of Review of the Commission's Regulations Governing Television Broadcasting, Further Notice of Proposed Rulemaking, 10 FCC Rcd 3542 at ¶ 26 (rel. Jan. 17, 1995).

<sup>25/</sup> The networks claim that the way in which advertising is sold today somehow makes it more difficult to manipulate national spot prices. See, e.g., Comments of NBC at 10-12. NBC contends that, because advertising is sold in packages instead of by individual station, the network would be unable to manipulate its affiliates' rates. However, the way in which advertising is sold does not affect the ability of networks to manipulate rates. Since all advertising is now sold in packages, networks would be able to manipulate package prices just as they could manipulate individual station's prices, making network packages more attractive than national spot packages. In any event, even the packages that NBC describes are comprised of individual spots from individual stations. The network rep rule is needed because, regardless how the advertising is sold, allowing one entity to control the only two vehicles for national video advertising creates a potential for abuse.

Although the networks argue that network collusion to set national spot prices would be impossible, <sup>26</sup> no collusion would be needed to accomplish this manipulation because the relevant parties would all be working for the same network. The only "collusion" necessary to occur would be between the person working for the network who is in charge of selling network ads and the person working for the same network who is in charge of national spot ads.

### B. The Networks' Economic Arguments Are Not Applicable to the Network Rep Rule.

In referring to the Economists, Inc. study, the networks claim that they lack significant market power in the video advertising market. 27/2 so the network rep rule's elimination will not diminish competition because the market is too unconcentrated for them to dominate the market. Their data, however, fails to account for the economic dependence of affiliates on their networks. As described above, a station's success often is dependent on network affiliation. In today's television market, the number of broadcast stations exceeds the number of networks in most markets. This gives networks the ability to put substantial economic pressure on affiliates to accept them as a representative: networks know that, if the station refuses, other stations in the market are available to carry network programming. Comments of Broadcasters Coalition at 8.

The bare economic data submitted by the networks fails to account for this practical marketplace reality. Networks and affiliates have a unique relationship. Although they compete for advertisers, they are parties to a contract and cooperate to promote and to provide

<sup>26/</sup> See, e.g., Comments of Capital Cities/ABC at 12-13.

<sup>27/</sup> Comments of NBC at 9: Comments of Capital Cities/ABC at 9; Comments of CBS at 12.

network programming to viewers. If networks cannot now dominate national advertising markets, it is only because the network rep rule exists. The rule's success in preventing network dominance is no reason to discard it.

Moreover, contrary to the networks' comments, antitrust laws are not a practical deterrent to or remedy for anticompetitive conduct. First, the nature of the network-affiliate relationship makes it unlikely that such a suit would be brought. In addition, by the time any antitrust action were resolved, the damage to the rep business and the network affiliates would be done. Antitrust enforcement is available only to those stations with substantial economic resources to wage an all-out litigation war, and the staying power to pursue litigation appeals. It plainly is not a remedy available to many, if any, affiliates.

Finally, the networks claim that allowing them into the rep business would increase competition. The networks cite the consolidation of the rep industry as evidence that more competition is needed in that industry. If more competition is desirable in the rep industry, allowing the networks to represent their affiliates will not fulfill this goal. Because of their ability to exert influence over their affiliates, networks would diminish rather than add to the number of participants to the rep industry. Certainly seven independent rep firms is better for the industry than three or four networks controlling all national video advertising.

### IV. Conclusion.

The networks have failed to demonstrate any legitimate reason for eliminating the network rep rule. The network rep rule is effective in serving the Commission goals of competition and localism. Broadcasters, the intended beneficiaries of the repeal of the

<sup>28/</sup> Comments of NBC at 19; Comments of Capital Cities/ABC at 21-23; Comments of CBS at 24-25.

network rep rule, unanimously urge the rule's retention. Independent reps not only solely represent the individual station's interest when selling advertising, the reps provide objective programming advice. In arguing for elimination of the network rep rule, the networks distort economic data and overstate the options available both to network affiliates and national advertisers. Because networks exert sufficient control over their affiliates to make network representation an unavoidable option, eliminating the network rep rule would effectively drive independent rep firms out of business. This would lead to a situation in which the networks control the sale of all broad-based national video advertising. Such a result would diminish competition and undermine the ability of local stations to serve their communities.

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### CERTIFICATE OF SERVICE

I, Tammi A. Foxwell, a secretary at the law firm of DOW, LOHNES & ALBERTSON, do hereby certify that on this 27th day of September, 1995, I caused true and correct copies of the "Reply Comments of the Broadcasters Coalition" to be delivered via first-class mail, postage prepaid, except where otherwise indicated, to the following:

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